

SMALL BUSINESS

United States
Small Business
Administration

Office of Advocacy

RESEARCH SUMMARY

No. RS 177
June 1997

Bundled Contract Study FY91-95¹

by Eagle Eye Publishers,
Vienna, VA, under contract No. SBA HQ-95-C-0020

Purpose

The purpose of this study was to determine the impact that consolidating small, individual government purchases into larger, bundled contracts and raising the small purchase threshold to \$100,000 has had on small business participation in federal contracting. The Office of Advocacy notes that since the release of the data used in this study, the federal government has enacted significant procurement reforms encouraging contract consolidations, centralized administrations and entered long-term agreements with fewer vendors. These actions can only exacerbate the problems detailed in this study.

Scope and Methodology

The data used for this study describe various characteristics of contractual obligations made between the federal government and prime contractors from FY1991 to FY1995 (note that subcontract and budget data are not included). The Federal Procurement Data Center (FPDC) provided the data for this study.

The investigators defined a candidate bundled contract (CBC) as any contract showing multiple SIC codes, multiple types of contract codes (cost-plus, firm fixed price, etc.), or multiple places of performance (where work is performed). The data classify businesses into large businesses (LBs), 8(a)/small, disadvantaged businesses (SDBs) and other small businesses (OSBs) based on the U.S. Small Business Administration's size standards. (OSBs are small businesses other than SDBs.)

The study also analyzes 13 industries that are key to small businesses, by scoring (with ratings between 0 and 1) on nine criteria: percent of CBCs; actions per contract; ratio of large to small contracts; small business trends (large to small percentages); contract dollar trends, by business type; business type of CBCs; counts of business types; business types in large contracts; and new small business share. A top score of 9 indicates strong evidence that consolidation is occurring and causing harm to small businesses.

Highlights

The research found that for all federal contracts contract consolidation is increasing.

- From FY1991 to FY1995, overall government contract spending dropped 8.7 percent (\$196.6 billion to \$179.4 billion). The number of business units receiving contracts dropped 6.5 percent (78,800 to 74,400) and the number of contracts dropped 11 percent (193,000 to 171,000). In FY1995 there was less money going to fewer contractors via fewer contract vehicles. Also, average contract value increased. This suggests a gradual consolidation among federal contracts.
- Between FY1991 and FY1995 the large contract share (greater than or equal to \$100,000) increased steadily from 40 percent to 48 percent, a 20 percent growth over five years.

Consolidation is causing harm to small businesses, primarily OSBs.

¹ This Small Business Research Summary (ISSN 1076-8904) summarizes one of a series of research papers prepared under contracts issued by the Office of Advocacy U.S. Small Business Administration. The opinions and recommendations of the authors of this study do not necessarily reflect policies of the SBA or any agency of the U.S. government. The administrator of the U.S. Small Business Administration Office of Advocacy has determined that the publication of this periodical is necessary in the transaction of the public business required by law of this agency. Use of funds for printing this periodical has been approved by the director of the Office of Management and Budget.

- The combined small business share of the number of awarded contracts has declined since 1992 (60.5 to 58.9 percent), while the dollar share is up (16.5 percent to 17.8 percent). SDB gains mask OSB losses, as in market share SDB gained (3.5 to 5.9 percent) while OSB lost (12.9 to 11.9 percent).
- By average contract size, SDB grew 17.6 percent (\$415,000 to \$488,000), OSB grew 3.4 percent (\$261,000 to \$270,000) and LB grew 1.3 percent (\$2.316 million to \$2.346 million)
- In FY1991, one out of every three contracts awarded to a small business was large (greater than \$100,000). By FY1995, the figure was one out of every two contracts.

Seven of the thirteen industries studied have combined bundled contract / small business impact ratings greater than moderate harm (a rating of 4.5).

- Ship repair (7.98) - Bundling signals exist. Overall spending is up, but the number of participating small companies and contracts to small companies is down. It appears much of this sector's growth is coming at the expense of OSBs.
- Architecture and engineering services (7.64) - Consolidation is occurring and hurting OSBs. The growth of SDB and LB dollars, companies, and contracts - along with their increasing percentages of CBC contracts - demonstrate that contract consolidation is squeezing out OSBs.
- Hospital and pharmaceutical supplies (7.16) - Consolidation trends appear in this growth sector. Fewer contracts, with increasingly higher average values, are issued to fewer market players. LBs dominate sales, number of firms and contract counts.
- Construction and renovation (7.15) - Consolidation is occurring and hurting OSBs. Revenues in dollars increased 122 percent for SDBs and 13.9 percent for large businesses, while OSBs declined 27.4 percent.
- Food service (7.15) - Overall trends indicate consolidation. Total spending, numbers of companies and numbers of contracts are down, and the CBC share of contracts and average contract value are up. SDB and OSBs have lost 12 percent and 21 percent of the share of the count of vendors, respectively.
- Refuse removal, waste treatment and storage (4.98) - Consolidation is moderately occurring. Overall spending is up, but the number of participating small companies and contracts to small companies is down, particularly in OSBs.
- Automated Data Processing (ADP) services (4.65) - This sector shows modest consolidation trends. There was growth in the amount of dollars, number of

companies, and number of contracts. However, average contract values and actions per contract were up.

- Facilities and maintenance (4.49) - There were conflicting signals. Growth occurred in CBC contract ratios, while average contract size declined.
- ADP manufacturing (4.32) - Consolidation indicators are mixed. The SDB category showed bundling, while LB and OSB categories did not. Bundling is harming LBs.
- Housekeeping services (4.32) - Consolidation figures are mixed. Overall dollar totals, company counts, contract counts, and average contract value are up, while CBC shares of the number of contracts are down.
- Moving services (3.82) - Bundling signals were mixed. Business and contract counts were stable, while the small business share of firms rose.
- Office supplies (3.49) - Bundling signs were not strong. Trends in CBCs, actions per contract, average contract value, and large contracts' share of total were down, indicating competition, not bundling.
- System maintenance, repair and alteration (2.15) - This sector showed weak signs of bundling, with only the SDB category showing signs.

Summary

Contract consolidation is increasing and causing harm to small businesses, primarily OSBs. OSBs, which consist of the majority of small business government contractors, saw total dollars, market share, and numbers of contracts decline from FY91 to FY95, while average contract size increased. Small businesses are becoming increasingly dependent on fewer, and larger, contracts. Industry analysis support the overall findings that contract consolidation is squeezing out OSBs.

Ordering Information

The complete report is available from:

National Technical Information Service
 U.S. Department of Commerce
 5285 Port Royal Road
 Springfield, VA 22161
 (703) 487-4650 (703) 487-4639 (TDD)
 Order number: PB97 1801731